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Mr. Chairman, my name is Auggie Tantillo and I am the Executive Director of the American Manufacturing Trade Action Coalition (AMTAC). AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers, lumber and luggage producers. Additionally, a significant component of AMTAC's membership consists of producers from the textile and apparel sectors.

CAFTA IS A CONTINUATION OF FLAWED U.S. TRADE POLICY

AMTAC strongly opposes the Central American Free Trade Agreement (CAFTA). We base our opposition on the view that CAFTA replicates the flawed trade policy model of the North American Free Trade Agreement (NAFTA) and Singapore, Chile and Morocco free trade agreements (FTAs). This model involves granting free access to the U.S. market for producers that use pennies-an-hour wages, low labor standards, and low environmental standards to undercut U.S. domestic manufacturers. In return, U.S. domestic manufacturers gain access to markets that are only a fraction of the value of the U.S. market. CAFTA consumers, for example, only represent 1.8 percent of the U.S. economy and have virtually no ability to purchase finished goods made in countries that pay reasonable wages and have strong environmental, labor, safety, and health standards.

The results of this failed model are clearly predictable. CAFTA will exacerbate the already astronomical $617 billion U.S. trade deficit. One need only study the impact of NAFTA, which is virtually identical to CAFTA, to determine the outcome. It should be noted that 85 percent of the text of CAFTA is identical to the NAFTA. The other 15 percent is even worse, granting greater loopholes that will displace current exports of U.S. yarns and fabrics to the region.

In the early 1990's, NAFTA was sold to the American public as a vehicle to substantially increase the modest U.S. trade surplus with Mexico which would in turn help to sustain and create millions of high-paying and high-valued added manufacturing jobs in our country. Assertions like the bold claim made below by the Institute for International Economics in October 1993 were common:

"… with NAFTA, U.S. exports will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about $7 billion annually by 1995 … rising to $9 billion to $12 billion between the years 2000 and 2010."

Eleven years after adopting NAFTA, the facts demonstrate that nothing could be further from the truth. The U.S. has gone from a $1.6 billion surplus with Mexico in 1993 to a stunning $45 billion deficit last year. From surpluses before NAFTA, we have gone to continuous deficits since. Over this period, hundreds of U.S. factories have closed and relocated south of the border to take advantage of the low production costs in Mexico, while still enjoying free access to the valuable U.S. market. Even more troubling, the U.S. Department of Labor reports that 1.8 million workers have filed for Trade Adjustment Assistance as result of NAFTA because their jobs were eliminated in the U.S. and sent to Mexico.

Five Year Trend For FTA Partners

US Deficits for Trade In Goods (in Millions)

	2000	2001	2002	2003	2004
Canada	-51,897	-52,844	-48,165	-51,671	-65,764
Mexico	-24,577	-30,041	-37,146	-40,648	-45,068
Israel	-5,219	-4,484	-5,389	-5,877	-5,329
Jordan	244	110	-8	-181	-541

Today, proponents of CAFTA are purveying the same NAFTA-like exaggerations to the alleged benefits of the agreement. For instance, the U.S. Chamber of Commerce claims substantial economic gains from CAFTA. But in the fine print of the study, the U.S. Chamber admits that it bases it conclusions on the assumption that exports from CAFTA countries will not increase to the United States! This assumption is preposterous, as U.S. imports have increased from all countries with which we have free trade agreements.

It is easy to see why our trade deficit with the CAFTA countries will grow rather than shrink. The combined GDP of the CAFTA countries is just $217 billion dollars, and the per capita GDP for the region is only $4,632. These 6 countries are roughly 16% the size of the U.S. in terms of population and less than 2 percent in terms of economy.

CAFTA Countries	Population	% Below Poverty Line	Labor Force	GDP	Per Capita GDP
Costa Rica	4,016,173	18%	1,810,000	$37.97 bil	$9,600
Dominican Rep.	8,950,034	25%	2,450,000	$55.68 bil	$6,300
El Salvador	6,704,932	36%	2,750,000	$32.35 bil	$4,900
Gautemala	14,655,189	75%	3,680,000	$59.47 bil	$4,200
Honduras	6,975,204	53%	2,470,000	$18.79 bil	$2,800
Nicaragua	5,465,100	50%	1,930,000	$12.34 bil	$2,300
Total	*46,766,632*	*49%*	*15,090,000*	*$216.60 bil*	*$4,632*
United States	295,734,134	12%	147,400,000	$11.75 tril	$40,100

Clearly, while these countries do not possess the ability to buy substantial amounts of finished U.S. made goods, they do possess the ability to take advantage of pennies per hour labor and minimal labor, safety and environmental standards and export massive quantities of manufactured products, especially those in the textile and apparel sector, quota and duty free to the U.S. market. As we will demonstrate below, this potentially could have a negative impact on overall consumption of U.S. cotton.

U.S. TEXTILE INDUSTRY MAJOR CUSTOMER FOR U.S. COTTON

The United States is the largest market for cotton products in the world. In 2000, the United States consumed 24 percent of the world's production of cotton products. The U.S. Department of Agriculture (USDA) reports that between farming and textiles, the U.S. cotton industry accounts for $25 billion in goods and services annually.

Nevertheless, while U.S. demand for cotton products has remained high, the USDA reports that U.S. textile industry consumption as a share of U.S. upland cotton production has fallen from more than 60 percent in 1997-98 to only approximately 33 percent as of 2004-05. USDA predicts that the U.S textile industry share will drop even further to 25 percent by 2014-15. In terms of volume, annual U.S. textile industry consumption of U.S. cotton has decreased from in excess of 10 million bales to 6 million bales during the same time period.

The drop in cotton consumption by the U.S. textile industry is matched by a corresponding fall in U.S. textile and apparel output. Despite an increase in exports from $11.5 billion to $16.2 billion, U.S. output of textiles and apparel has plunged by 26 and 57 percent, respectively, while the value of annual U.S. textile and apparel shipments has plummeted by $41 billion, dropping from $155 billion to $114 billion, since the enactment of North American Free Trade Agreement (NAFTA) in 1994.

As U.S. textile and apparel production freefalls, U.S. imports of cotton textile and apparel products has skyrocketed, jumping from $19.2 billion in 1994 to $44.1 billion in 2004. This accounted for 53 percent of all U.S. textile and clothing imports under the now expired Multi-Fiber Agreement (MFA). The volume of U.S. imports is rising rapidly as well, exploding from less than 8 billion square meters in 1994 to nearly 19 billion square meters in 2004.

One of the premises of NAFTA and the Caribbean Basin Initiative (CBI) was that the NAFTA and CBI markets essentially would be captive markets for U.S. textile producers. As the facts above show, clearly this has not been the case. The bottom line for the U.S. textile industry is that after more than ten years of NAFTA, the Caribbean Basin Initiative (CBI), the African Growth and Opportunity Act (AGOA), and other free trade agreements, we have not been able to replicate the same volume and value of business we had prior to passage of these agreements by the Congress.

Replicating lost domestic business with exports abroad is a challenge that faces the U.S. cotton industry too. USDA reports that the U.S. share of global consumption of world cotton production has dropped to 18 percent, down from a high of 25 percent in 1994-95, and is expected to fall further in the next decade. But a more important unanswered long-term question is whether other large, low-wage, developing countries will attempt to emulate China's extreme subsidization of textiles, apparel and other products in the manufacturing sector in agricultural sectors like cotton as U.S. farmers possibly see their subsidies cut or eliminated? Imagine what farmers in Pakistan, India, China, Brazil and Sub-Saharan Africa could do if they were trained to use similar farming techniques and able to afford the most advanced farm machinery. If this happens, the U.S. share of the world's cotton market could fall even more.

For U.S. textile manufacturers, the aforementioned nightmare scenario already is reality. China has invested more than $20 billion in its textile and apparel sector in the past three years and now controls more than 20 percent of the $90 billion U.S. textile and apparel import market and more than 25 percent of the $400 billion global market.

Current U.S. law makes it impractical for U.S. textile manufacturers to import foreign cotton, effectively giving the U.S. cotton industry a captive market. With U.S. yarn spinners expected to move existing U.S. production to Central America after the passage of CAFTA, what is to prevent them from buying foreign rather than U.S. cotton over the long run? Why trade a captive market for a non-captive one – especially when your new market is chalk full of loopholes designed to exclude U.S. textile components from the supply chain?

CAFTA TEXTILE AND APPAREL LOOPHOLES

CAFTA destroys the existing incentives that have driven the system where large amounts of American yarn, fabric and components are used in the production of apparel in CAFTA countries. CBTPA requires, with one exception, the use of U.S. yarn, fabric and components in order for apparel from CBTPA countries to be imported into the U.S. tax-free. This requirement is why $4.2 billion in trade has developed between American textile firms and CAFTA apparel makers. However, **CAFTA eliminates the U.S.-only requirement** and allows for American **or Central American** yarn, fabric and components to be used in garments accorded tax-free importation into the U.S.

In addition to changing the rule of origin, CAFTA also contains numerous loopholes that will benefit countries that were not party to the negotiation, such as China.

Loopholes	Amount
Cumulation- Mexican and Canadian fabrics may be used for woven trousers (essentially a Mexican & Canadian TPL). - also contains a growth factor that is NOT dependent on growth of U.S. exports - also allows other FTA countries to latch on	**100 million square meters** (could go up to 200 million square meters; plus Free Trade Commission is scheduled to discuss an increase after passage of CAFTA)
Single Transformation- Unlimited amount of fabric and yarn from any country (such as China) allowed for brassieres, woven boxers and woven nightwear	**Unlimited amount of duty-free imports** of brassieres, underwear, and nightwear without U.S. or CAFTA components can enter under CAFTA. **50+ million square meters**
Nicaraguan TPL- Non-U.S. or CAFTA yarn and fabric allowed for Nicaragua apparel.	**100 million square meters**
De Minimus Level Raised- Increased from 7 to 10 percent	**25 million square meters**
Costa Rican Wool TPL- Non-U.S. or CAFTA yarn and fabric allowed for Costa Rican wool apparel	**500,000 square meters** to be shipped to the U.S. at one-half the normal tariff regardless of origin of yarns and fabrics
Non-essential Fabric Exemption- Certain fabrics (pocketings, waistbands, interlinings and trim) can be sourced form any country	**175 million square meters** of these components were U.S.-made under CBTPA in 2004
Total damaged caused by loopholes/side deals	**550 - 750 million square meters**

When CAFTA was being negotiated, the entire U.S. textile industry adopted a unified platform urging the administration to negotiate a CAFTA with NO loopholes that would allow for non-regional yarn and fabric.

The industry sent a letter to the President on July 7, 2003 urging him to reject any loopholes that would permit foreign suppliers to benefit at the expense of domestic manufacturers. Furthermore, 141 members of Congress echoed this message in a letter to the President dated September 17, 2003. However, the U.S. government agreed to a large number of loopholes in the yarn-forward rule of origin. These loopholes will benefit Mexican, Canadian, and Asian (likely Chinese) textile businesses and their workers at the expense of workers in the United States. The amount of loss business to U.S. textile firms as a result of these various loopholes is estimated to be well in excess of $1 billion. There is no reason why countries, that are not signatories of CAFTA, should benefit from this agreement to our detriment.

CAFTA IS NOT THE ANSWER TO CHINA

CAFTA supporters argue that the only way to protect the U.S. textile industry from the onslaught of Chinese textile imports is to create a "regional bulwark" with Central America. But even if the loopholes in CAFTA were closed, it is still nonsensical to purport that some formulation of a U.S./Central American production platform will be the magic combination of technology and low-wages to compete with the Chinese juggernaut.

Obviously, China possesses numerous advantages such as low labor costs, a large workforce, natural resources, etc. However, combining these inherent advantages with its rampant use of predatory trade practices is what really makes China unstoppable.

In its 2004 Report to Congress, the U.S.-China Economic and Security Review Commission stated:

> **China is continuing to attract massive levels of foreign direct investment (FDI), including $57 billion in 2003. Its policies to attract FDI have been supplemented by industrial policies aimed at developing national productive capacity in selected "pillar" industries. These policies support Chinese corporations through a wide range of measures that include tariffs, limitations on access to domestic marketing channels, requirements for technology transfer, government selection of partners for major international joint ventures, preferential loans from state banks, subsidized credit, privileged access to listings on national and international stock markets, discriminatory tax relief, privileged access to land, and direct support for R&D from the government budget. Such policies give Chinese industry an unfair**

competitive advantage, thereby contributing to erosion of the U.S. manufacturing base. Many of these policies are not permitted under World Trade Organization (WTO) and U.S. trade rules.[1]

To demonstrate how overwhelming Chinese subsidies are, we need only examine Mexico's experience when quotas were removed for certain textile and apparel categories in 2002. Chinese exports in those categories surged dramatically while exports from Mexico and the CBI countries fell sharply.

For categories released from quota in 2002, exports from Mexico dropped from 85 million square meters to 40 million square meters. **Mexican market share declined from 8 percent in 2001 to 2 percent in Nov. 2004.** Caribbean and Central American countries exports dropped from 113 million to 68 million square meters, and **CBI market share declined from 10 percent to 3 percent.** And the Chinese gained the market share lost by all other countries.

Despite the fact that Mexico enjoys duty free access to the U.S. under NAFTA and sits directly on our southern border they were not able to compete with China in the U.S. market. This is because China employs a pervasive system of subsidies that allows them to be the undeniable price leader in the global market as demonstrated by the following chart:

Categories	Chinese Export Price	Rest of World Price	U.S. Price	Chinese Advantage over World (Including U.S.)	Chinese Advantage over U.S.
Cotton Trousers	$2.87	$7.73	$12.79	63%	78%
MMF Trousers	$2.16	$4.90	$11.39	56%	81%
M/B Woven Shirts	$2.83	$4.16	$12.05	32%	77%
Cotton Knit Shirts	$1.29	$4.29	$4.55	70%	72%
MMF Knit Shirts	$1.50	$4.37	$4.09	66%	66%

Moreover, CAFTA will actually exacerbate the China problem. The loopholes previously discussed allow for massive quantities of Chinese yarn, fabric and other components to displace U.S. yarn, fabric and components.

Through loopholes such as the Nicaraguan TPL and the Single Transformation provisions, millions of square meters of Chinese components can and will be sent to CAFTA countries for assembly and then exported duty free to the United States. In fact, there are already well-established trading relationships between China and the CAFTA countries. In 2004, the six CAFTA countries imported $566 million worth of textiles and apparel from China. Although China is not a signatory to the CAFTA agreement, they will be one of the biggest beneficiaries at the expense of U.S. companies and workers.

SOLUTIONS TO THE TRADE POLICY CRISIS

In conclusion, it is clear that CAFTA replicates the flawed policy model that has lead to millions of job losses, crippled key manufacturing sectors such as the U.S. textile industry, and badly damaged the U.S. economy.

Instead of perpetuating this flawed model, Congress should insist on policies that prevent the outsourcing of high-paying jobs, the destruction of America's industrial base and the exporting of America's strongest long-term wealth creating assets.

In that regard, I would propose the following steps:

2004 Report to Congress of the U.S.-China Economic and Security Review Commission, June 2004. The report is available online at http://www.uscc.gov/researchreports/2004/04annual.report.pdf.

In order to get our exploding trade deficit under control, we should only focus on trade agreements with countries that can actually purchase finished U.S. goods, such as Great Britain or Italy. Accordingly, Congress should defeat CAFTA and any other proposed free trade agreements with countries that will simply serve as low cost export platforms to the U.S. market.

Second, the U.S. must insist that all future trade agreements share the benefits only between the contracting parties. This means precluding the inclusion of loopholes like TPLs, single transformation, and exemptions for so called "non-essential" fabrics or components. China's manufacturing sector already has enough advantages with the backing of its government's massive illegal subsidy schemes. Congress does not need to give China any more back-door avenues to the U.S. market through sieve-like trade deals such as CAFTA.

Third, the U.S. must tackle the China problem head on. Pass legislation making it easier to file anti-dumping and countervailing duty lawsuits against non-market economies. Halt any efforts to kill the Byrd Amendment. Pass legislation that directs the U.S. government to hire more officials to monitor and litigate violations of trade agreements and intellectual property agreements. Stop the exportation of critical military industrial sectors like electronics, soft ware production, textiles and machine tooling. Put pressure on the Administration to impose safeguards on Chinese imports of textile and apparel products.

Fourth, Congress must reassert its authority over trade policy. The Founding Fathers gave Congress the sole authority to regulate foreign trade for a reason. Congress is the branch of government designed to be closest, and therefore most responsive, to the people. Instead of embracing this responsibility, Congress has severely diluted it by passing Trade Promotion Authority (TPA), Permanent Normal Trade Relations (PNTR) status for China and other laws designed to consolidate authority to place trade policy in the hands of the Executive Branch. As a result, on critical issues such as CAFTA, implementing legislation cannot be amended and must be considered under an expedited timeframe that no other legislative policy initiatives enjoy. This leverage must be reversed. Congress should withdraw both TPA and PNTR for China and reassert its rightful authority over the Executive Branch in trade policy matters.

Finally, Congress should require an independent trade impact study prior to the consideration of all proposed trade agreements and major trade bills. Do we expect the Executive Branch, which authored the concept and the text of CAFTA to give an objective view of its projected benefits? Congress must have an independent source of information to determine basic issues such as whether a proposed agreement is going to benefit U.S. producers or whether it will increase or diminish the trade deficit.

While these are not all of the changes needed to rectify the flawed trade policies responsible for America's nearly $4 trillion trade deficit since 1990, they do represent a good start.

CONCLUSION

In conclusion, the CAFTA agreement that will be debated by Congress is a failed arrangement that is part of a larger failed trade policy. The agreement opens no new significant markets for U.S. exporters while giving six low-wage and low-cost-of-production countries completely free access to the lucrative U.S. market. The agreement undermines the more logical existing arrangement under the CBTPA, which grants duty free access to the U.S. market for these countries when they use U.S. yarns and fabrics. Finally, the agreement actually provides enormous backdoor access to the U.S. market for countries like China that are not even signatories to the deal. Consequently, CAFTA will displace production and employment in the U.S. textile and apparel sector by encouraging U.S. firms to move operations to Central America and the Dominican Republic.

When U.S. textile producers are damaged by CAFTA, U.S. cotton producers will not be immune from the fallout, as they will be trading their captive U.S. market for an open Central American market. Only time will tell whether cotton producers will be able to replicate their U.S. business abroad over the long run.

For these reasons, Congress should reject CAFTA and demand that the U.S. government change its trade policy to encourage domestic production instead of outsourcing, thereby reducing the U.S. trade deficit and trade-related high-wage job losses.